



28 August 2025

# Tax Alert

## Draft legislation released — Carbon tax and customs related proposals

The draft tax legislation was published on 16 August 2025 whilst the draft National Greenhouse Gas Carbon Budget and Mitigation Plan Regulations were published on 1 August 2025. We summarise some of the main proposals in this publication.

### Release of Draft Carbon Budget Regulations and related carbon tax proposals

The Department of Forestry, Fisheries and the Environment ("DFFE") recently published the draft National Greenhouse Gas Carbon Budget and Mitigation Plan Regulations ("the Draft Carbon Budget Regulations") for public comment marking a major step in South Africa's climate policy. These regulations set out the framework for allocating mandatory carbon budgets to companies under the Climate Change Act 22 of 2024.

- **Who is covered:** Large emitters in key sectors will be allocated carbon budgets for five year commitment periods.
- **Compliance and reporting:** Companies must monitor, report and verify their greenhouse gas emissions and demonstrate compliance with their allocated budgets and mitigation plans.
- **Penalties for non-compliance:** Exceeding the allocated budget may trigger significant financial consequences under the carbon tax regime.



## **Related carbon tax proposals in the Draft Taxation Laws Amendment Bill 2025 ("TLAB")**

To align with the new carbon budgeting system, the TLAB introduces two key carbon tax proposals:

### **High carbon tax rate for exceeding budgets:**

It is proposed that companies with emissions above their allocated carbon budgets will face a steep carbon tax rate of R640 per tonne of CO<sub>2</sub> equivalent ("tCO<sub>2</sub>e") on the excess emissions, as compared to the current R236 / tCO<sub>2</sub>e. Importantly, as previously announced, it is proposed that no allowances will be allowed to be claimed against these excess emissions. Therefore, every tCO<sub>2</sub>e above the budget is expected to be taxed at the full rate of R640 / tCO<sub>2</sub>e.

### **Extension of the carbon budget allowance:**

The existing 5% carbon budget tax-free allowance, which was set to expire at the end of 2024, will be extended for one more year until 31 December 2025. This provides continued relief for companies participating in the voluntary carbon budget system until the mandatory system is phased in which is expected to be from 1 January 2026.

### **Increase to carbon offset allowances**

To stimulate low-carbon investments and carbon market activity, it is proposed that from 1 January 2026 the carbon offset allowance will increase by five percentage points for the following emissions:

- Fuel combustion emissions: from 10% to 15%
- Fugitive and process emissions: from 5% to 10%

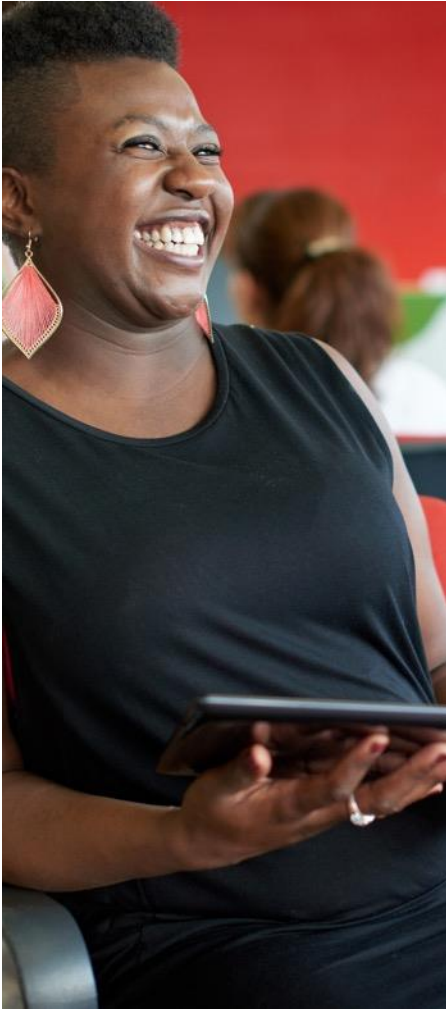
This means that companies now have more incentive to invest in "green projects" as this will reduce their carbon tax liabilities.

### **Electricity price neutrality extended to 2030**

To shield consumers and industry from rising electricity costs, it is proposed that the commitment to electricity price neutrality is extended until 31 December 2030. The carbon tax will replace the electricity generation levy from 2026 but electricity generators can continue to deduct the renewable energy premium from their carbon tax liability until 2030.

### **Now third-party timber counts for sequestration deductions**

The rules for carbon sequestration deductions are being broadened. National Treasury has proposed that not only timber grown under a taxpayer's direct control but also timber supplied by registered and verified third-party growers will qualify for deductions. This proposal, once enacted, will be a welcomed amendment by the forestry, pulp and paper sectors, especially small-scale and informal timber suppliers.



## New emission factors and formulas aligning with latest guidelines issued by the DFFE

National Treasury proposed that the emission factors for key fuels (natural gas, methane-rich gas, sub-bituminous coal and other bituminous coal) are being updated to reflect the latest DFFE guidelines. New formulas for calculating emissions from charcoal production and coal/gas-to-liquids activities will provide more accurate and fair tax assessments.

## Diesel refund relief for primary sectors

It is proposed that the diesel refund system for farming, mining and forestry will be simplified. The 80:20 rule falls away, and it is proposed that refunds will now apply to all eligible diesel purchases, providing an estimated R1 billion in additional relief to these sectors.

## Voluntary Disclosure Relief – A new opportunity for customs and excise compliance

A major innovation is the proposed introduction of Voluntary Disclosure Relief (“VDR”) into the Customs and Excise Act. This new regime allows taxpayers who have underpaid duties, levies or environmental taxes (including carbon tax and environmental levies) to come forward voluntarily, disclose their non-compliance and settle outstanding amounts.

- **Key features:** Relief is available only if the disclosure is voluntary, full and complete, and not prompted by a prior notification of audit or investigation (with limited exceptions).
- **Benefits:** If accepted, applicants can avoid criminal prosecution, administrative penalties (except for late payment) and forfeiture penalties, provided they pay the outstanding amounts as agreed.
- **Process:** Applications must be made in the prescribed form, and a written agreement will be concluded with SARS.
- **Why it matters:** This is a valuable window for businesses to regularise past customs, excise and environmental levy exposures before enforcement ramps up under the new, tougher regime.

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**Effective dates to watch**

- Most carbon tax amendments: 1 January 2026
- Carbon budget allowance extension: 31 December 2025
- Diesel refund changes: 1 April 2026
- Higher tax rate for excess emissions: Date to be determined by Minister of Finance (once regulations are gazetted)
- Voluntary Disclosure Relief: Date to be determined by notice in the Government Gazette

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